

Members

Rep. John Frenz, Co-Chairman
Sen. Luke Kenley, Co-Chairman
Rep. Eric Turner
Sen. Lindel Hume
Sandra Bickel
Joe Breedlove
Dan Clark
Amy Corsaro
Deborah Driskell
Les Fox
Phil Hoy
S. Michael Hudson
Mike Karickhoff
Patrick Kiely
Joseph Loftus
Joseph Minnis
J. Daniel Philpott
Bill Roach
Jason Shelley
Don Strietelmeier
John Taylor
Thomas Taylor
Ernie Wiggins
Louis Zickler



PROPERTY TAX REPLACEMENT STUDY COMMISSION

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John Parkey, Fiscal Analyst for the Commission

Authority: P.L. 64-2004

MEETING MINUTES¹

Meeting Date: April 27, 2004
Meeting Time: 2:00 P.M.
Meeting Place: State House, 200 W. Washington St., 404
Meeting City: Indianapolis, Indiana
Meeting Number: 1

Members Present: Rep. John Frenz, Co-Chairman; Sen. Luke Kenley, Co-Chairman; Rep. Eric Turner; Sandra Bickel; Joe Breedlove; Daniel Clark, Deborah Driskell; Les Fox; S. Michael Hudson; Mike Karickhoff; Patrick Kiely; Joseph Loftus; Joseph Minnis; J. Daniel Philpott; Jason Shelley; Don Strietelmeier; John Taylor; Thomas Taylor; Ernie Wiggins; Louis Zickler.

Members Absent: Sen. Lindel Hume; Amy Corsaro; Phil Hoy; Bill Roach.

Senator Luke Kenley, Commission Co-Chairman called the first meeting of the Property Tax Replacement Study Commission to order at 2:04 P.M.

Senator Kenley introduced Commission Co-Chairman John Frenz, and briefly discussed the staffing of the Commission and requested that Commission members provide staff with their email address and phone number. Senator Kenley asked that the Commission members introduce themselves. After the introductions, Senator Kenley reviewed the charge of the Commission set forth in Section 39 of P.L.64-2004.

¹ Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.ai.org/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

Senator Kenley recognized Senator Frank Mrvan. Senator Mrvan read a letter to the Commission from Senator Earline Rogers relating to reassessment and property tax rates in Lake County, and requesting that the Commission schedule at least one meeting in Lake County (see Exhibit 12). Senator Mrvan indicated that the property tax situation in Lake County is a very serious as many homeowners do not have the financial means to pay their post-reassessment property taxes.

Commissioner Patrick Kiely asked if there are Lake County homeowners who have experienced property tax reductions. Senator Mrvan indicated that the reductions tend to be of a magnitude of a few hundred dollars. However, Senator Mrvan indicated that the property tax increases he is hearing about tend to be of a magnitude in the thousands of dollars.

Commissioner Don Strietelmeier asked whether Lake County's property tax situation is unique. Senator Mrvan indicated that the increases stem from reassessment as well as the decline in the industrial tax base in Lake County.

Commissioner Les Fox asked about the economic standing of homeowners in Lake County who are experiencing significant increases in property tax bills. Senator Mrvan indicated that these homeowners are not necessarily affluent, and that many are on limited incomes and may not be able to pay the property taxes on their homes.

Senator Kenley indicated that analyzing the impact of reassessment is, at this point, problematic since complete post-reassessment property tax data is not available. Thus, he explained, the Commission will have to assess this impact with incomplete information and work **around this problem.**

Senator Kenley recognized Ms. Diane Powers, Fiscal Analyst for the Commission to present background information to the Commission on reassessment, property taxes, and potential property tax replacement (see Exhibits 1 - 10). Ms. Powers briefly described the fiscal and legal staffing for the Commission provided by the Legislative Services Agency (LSA), and highlighted the statutory charge of the Commission pursuant to Section 39 of P.L.64-2004 (see Exhibit 2).

Ms. Powers highlighted the status of reassessment (see Exhibit 3) and indicated that 85 counties have sent out Pay 2003 property tax bills. She indicated that some of the counties sent out provisional bills, however. She also indicated that 4 counties still have not completed reassessment.

Commissioner Fox inquired about the deadlines for reassessment.

Senator Kenley recognized Ms. Beth Henkel, Commissioner, Department of Local Government Finance (DLGF) to explain the reassessment deadlines.

Ms. Powers described the ongoing project to compile parcel level property data from every county in the state for policy analysis. She indicated that this is a collaborative project between LSA, the State Budget Agency, and the DLGF. Ms. Powers explained that LSA has received the pertinent parcel level data from only 54 counties to date.

Senator Kenley inquired as to whether property tax shifts for the state have been calculated.

Ms. Powers indicated that this has not been done because post-reassessment parcel level data has not been obtained for all counties at this point. She indicated that LSA is currently working with 8 different data sources to compile the parcel level property data that will allow for the shift analysis (see Exhibit 4).

Commissioner Fox asked whether there is data from other states showing property taxes paid by industry and use.

Ms. Powers indicated that staff would try to obtain this information.

Commissioner Sandra Bickel inquired as to why all of the county data had not been obtained yet.

Ms Powers indicated that the work of transmitting the data for policy analysis purposes requires some formatting changes and computer programming which is time consuming.

Commissioner Kiely asked if staff will attempt to perform dynamic analysis of the business and economic impact of the property tax shifts.

Ms. Powers indicated that LSA only performs static analysis and currently does not have the resource capacity to undertake dynamic analysis.

Commissioner Karickhoff requested that the staff supply data on demographic shifts -- particularly the proportion of the population that are wage earners versus retirees.

Ms. Powers then discussed documents describing the distribution of property taxes among government units and spending uses (see Exhibits 5 and 6). She also described documents highlighting the change in the net levy from 2002 to 2003 by type of government unit and use (see Exhibit 6); and the net levy change for individual local units in 69 counties for which 2003 certified and abstract levies were available (see Exhibit 13). Ms. Powers suggested that it is important to look at the change in the certified and abstract levy of individual local units in Exhibit 13 versus the numbers in Tables 1 through 3 to determine the impact of the actual levy increases from 2002 to 2003.

Commissioner Kiely inquired as to whether LSA has analyzed the potential impact recent reductions in local option income tax distributions may have had on levy increases. He suggested that in some instances local units may be raising the property tax levy to cover reductions in local option income tax distributions, but that the combined total of the two taxes may not reflect a significant increase.

Ms. Powers indicated that such an analysis has not been done on the county level.

Commissioner Daniel Clark asked if staff had historical information showing how the percentage of each spending category has changed over time.

Ms. Powers highlighted exhibits describing the property tax burden in each state (see Exhibit 7) and the relative share of state and local revenue generated in each state by property, sales and income taxes (see Exhibits 8 and 9). She also discussed tables showing the change in this tax mix as a result of tax restructuring (see Exhibit 10).

Senator Kenley pointed out that the Midwestern states tended to be rather close together in terms the mix of property, sales, and income taxes. He suggested that this is significant because decision makers will have to be cognizant of these comparative differences when it comes time to develop a replacement strategy.

Ms. Powers provided a cautionary note that the national reports classify taxes differently than would be the case if LSA had classified the taxes. She indicated that various business gross income taxes are classified as selective sales taxes by the U.S. Census Bureau whereas LSA would classify these taxes as forms of corporate income tax.

Commissioner Kiely, suggested that the Commission needs to classify these taxes in a standard manner that reflects the true share paid by various economic sectors. He indicated, for instance, that individual income tax totals don't represent taxes paid exclusively by individual wage earners, but include income tax paid by businesses that are not C-Corporations filing under the corporate income tax.

Ms. Powers discussed current estimates by LSA of the sales and individual income tax rates that would be necessary to generate sufficient revenue to replace 50%, 75%, and 100% of the property tax levy (see Exhibit 11).

Representative Frenz commented that replacement of the property tax with income and sales taxes has to be done carefully due to the volatility of both taxes in contrast to the stability of the property tax. He suggested that the Commission will probably have to consider a system of reserve funds to guarantee that school corporations do not experience significant declines in funding during economic downturns when sales and income tax revenues decrease.

Senator Kenley stopped the proceedings to discuss potential future meeting dates for the Commission. The Commission agreed to schedule its next meeting for 1:00 P. M., May 17, 2004, in Room 404 of the State House.

Representative Frenz asked staff how many states have a sales tax on services. Mr. John Parkey, Fiscal Analyst for the Commission responded that 3 or 4 states impose a sales tax on a full range of services. Representative Frenz requested that staff supply information on the sales tax in surrounding states, including local option sales taxes. Commissioner Kiely requested that staff also provide a list of services that are currently subject to sales tax in Indiana.

Commissioner Joseph Loftus asked staff to find out the extent to which other states have replaced the property tax and what revenue sources have been used for property tax replacement. He also asked that staff try to determine how local governments have been effected in states replacing at least 50 percent of property tax revenues with other sources of revenue.

Representative Eric Turner requested that the Commission consider how much latitude will be given in defining what "essential" government services for purposes of fulfilling the Commission's statutory charge to identify replacement revenue sources capable of providing sufficient revenue to maintain essential government services.

Commissioner Bickel inquired into the administrative cost of reassessment and, generally, the administrative cost of maintaining the property tax system.

John Krauss, Director of the Center for Urban Policy and the Environment and the Indiana Advisory Commission on Intergovernmental Relations (ACIR) gave a short presentation on the mission of the ACIR and indicated that the ACIR is willing to help the Commission with its interactions with local government officials.

The meeting was adjourned at 4:00 P.M.